

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

August 16, 2010

The Investment Committee met on Monday, August 16, 2010 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:35 a.m. and the following members were present:

George Diehr, Chair
Tony Oliveira, Vice Chair
John Chiang
Debbie Endsley, represented by Michelle Berklacich
Rob Feckner
JJ Jelincic
Henry Jones
Bill Lockyer, represented by Steve Coony
Priya Mathur
Louis F. Moret
Kurato Shimada

Terry McGuire represented John Chiang

Committee members excused: Patricia Clarey Dan Dunmoyer

AGENDA ITEM 1 – APPROVAL OF JUNE 2010 MEETING MINUTES

On **MOTION** by Mr. Jelincic, **SECONDED** and **CARRIED** that the June 14, 2010 Open Session minutes be approved as presented.

AGENDA ITEM 2 – AFFILIATE INVESTMENT PROGRAMS DIVISION, Affiliate Investment Programs Annual Review

Geraldine Jimenez, Division Chief; Barbara Lara, Program and Operations Manager; and Brian Karcher, Investment Officer, presented the item. Andrew Junkin, Wilshire Consulting, was available to respond to questions from the Committee.

Staff provided a review of the Affiliate Investment Programs Division 2009-10 accomplishments, an overview of 2010-11 initiatives, and requested one-year contract renewals for six investment managers.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve one-year contract renewals for the following investment managers:

- AllianceBernstein US Strategic Value Equity
- The Boston Company Small Mid Cap Growth Equity
- The Boston Company Small Mid Cap Value Equity
- Pyramis Global Advisors Trust Company Select International Equity
- Turner Investment Partners Core Growth Equity
- Pacific Investment Management Company (PIMCO) Short-Term Bond

AGENDA ITEM 3 – Asset Allocation Framework and Capital Market Expectations

Farouki Majeed, Senior Investment Officer, provided introductory remarks regarding the ongoing education series of presentations in preparation for the Committee's November Asset Liability Management (ALM) Workshop.

Stephen McCourt and Mark Szigety, Meketa Investment Group, provided a presentation titled "Beyond Traditional Mean-Variance Optimization: A New Framework for Asset Allocation and Risk Management." The objectives of the presentation were to:

- Provide a new perspective on the critical asset allocation process
- Discuss the pitfalls of traditional Mean-Variance Optimization
- Introduce "Economic Regime Optimization" as a more robust way to determine asset allocations
- Compare Mean-Variance Optimization and Economic regime Optimization outcomes under likely scenarios

Michael Schlachter and Andrew Junkin, Wilshire Consulting, and Allan Emkin, Pension Consulting Alliance, were available to respond to questions from the Committee.

Staff will evaluate the inclusion of economic regime information as part of the 2010 ALM Workshop, as well as capital market estimates provided by Meketa.

AGENDA ITEM 4a – TOTAL FUND, Organization System and Controls Status Report

Janine Guillot, Chief Operating Investment Officer, provided an update on the Investment Office Roadmap Initiative relevant to Organization Systems and Controls. The update included context regarding the complex operating environment, progress on enhancements, and prioritization of future initiatives.

AGENDA ITEM 5a – PROGRAM UPDATES, Global Equity – Corporate Governance

1) Corporate Governance Update

Anne Simpson, Senior Portfolio Manager, provided an update on recent corporate governance developments, including:

- Legislative and Regulatory Advocacy on July 21, 2010 the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) into law.
 CalPERS issued a press release praising the new federal financial reform law as a historic step toward protecting markets and advancing shareowner democracy.
- Sustainability specifically United Nations Global Compact activities to accelerate the practice of corporate sustainability and responsibility.

2) Wilshire Study on CalPERS Corporate Governance Program

Andrew Junkin and Tom Toth, Wilshire Consulting, presented the item.

Wilshire conducts an annual analysis of CalPERS corporate governance effectiveness by measuring the stock returns of companies placed on the Focus List. The objective of the Focus List process is to engage underperforming companies to improve their governance practices and thus drive positive economic returns. Wilshire staff presented the results of their July 31, 2010 performance analysis:

- The data strongly show that CalPERS involvement with Focus List companies has generally stopped the rapid erosion of performance results.
- The 5 years prior to the "initiative date," the Focus List companies produced returns that averaged 83.3% below their respective benchmarks on a cumulative basis, which is equivalent to an excess return of -30.1% per year on an annualized basis.
- The first 5 years after the "initiative date," the average targeted company produced excess returns of 12.7% above their respective benchmark return on a cumulative basis, or about 2.4% per year on an annualized basis.
- The 5 year cumulative excess return of 12.7% is below the since-inception results of 15.4% presented by Wilshire last year.

Eric Baggesen, Senior Investment Officer, and Anne Simpson, Senior Portfolio Manager, were available to respond to questions from the Committee.

This year marks the 23rd anniversary of the CalPERS Focus List. Over the next several months, staff intends to review all elements of the Focus List methodology and consider new engagement opportunities for shareowner intervention.

The Committee accepted the annual information report.

AGENDA ITEM 5b – GLOBAL FIXED INCOME, Consultant Review of Internal Programs

Andrew Junkin and Michael Schlachter, Wilshire Consulting, presented the item. Curtis Ishii, Senior Investment Officer, was available to respond to questions from the Committee.

Wilshire conducted a review and presented their findings of (1) the Internal Fixed Income Program and (2) the Limited Duration Program teams' personnel, investment process, and resources.

There was discussion of possible Fixed Income key-man risk and the importance of team management and succession planning.

The Committee accepted the annual report.

AGENDA ITEM 5c-f – PROGRAM UPDATES

There were no program updates for the following:

- c. Real Estate
- d. Alternative Investments Management (AIM)
- e. Inflation-Linked Asset Class
- f. Global Equity

AGENDA ITEM 6 – ACTIVITY REPORTS

The Committee accepted the following activity reports:

- a. Consolidated Investment Activity Report
- b. Chief Operating Investment Officer's Status Report

AGENDA ITEM 7 – AGENDA AND CALENDAR

The Committee accepted the following:

- a. September 13, 2010 agenda, as presented
- b. Annual agenda item calendar It was noted that the next ALM Workshop will be held on November 8-9, 2010

AGENDA ITEM 8 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 12:30 p.m.

The next Investment Committee meeting is scheduled for September 13, 2010 in Sacramento, California.

STEPHEN W. KESSLER Deputy Executive Officer Operations